



An Audit of Encumbrance Reporting at the Texas Workforce Commission

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Executive Summary

Purpose and Scope

The objectives of the Texas Workforce Commission (Commission) encumbrance reporting audit were to determine whether:

- The agency allowed large amounts of previously encumbered appropriated funds to lapse instead of expending them for the purposes outlined in the agency's Binding Encumbrances and Payables Certification.
- The agency accurately and timely reported binding encumbrances and payables, and submitted the required Binding Encumbrances and Payables Certification.
- The agency submitted requests to reinstate lapsed appropriations in an accurate and timely manner, including proper justifications from the chief fiscal officer (CFO) or a higher official.
- The agency maintained appropriate documentation for encumbrances, payables, reinstated lapsed balances, etc.
- The agency followed Uniform Statewide Accounting System (USAS) and Centralized Accounting and Payroll/Personnel System (CAPPs) requirements for recording encumbrance-related transactions.
- The agency requested multiple miscellaneous claims related to expired appropriations.

This audit was conducted by the Texas Comptroller of Public Accounts (Comptroller's office) and covers selected appropriation year 2016 appropriations, which expired on Aug. 31, 2018.

Background

The Texas Workforce Commission is the state agency charged with overseeing and providing workforce development services to employees and job seekers of Texas. It is governed by three commissioners who are appointed by the governor. The mission of the Commission is to promote and support a workforce system that offers employers, individuals and communities the opportunity to achieve and sustain economic prosperity.

Texas Workforce Commission website
<https://twc.texas.gov/>

Audit Results

The Commission complied with [*Encumbrance Report and Lapsing of Appropriations \(APS 018\) \(FPP A.019\)*](#).

Auditors noted no errors in the current audit. An overview of audit results is presented in the following table.

Table Summary

Encumbrance Reporting, Certification and Documentation		
Audit Question	Results	Rating
Did the agency over-encumber or allow large amounts of previously encumbered appropriated funds to lapse instead of expending them for the purposes outlined in the agency's Binding Encumbrances and Payables Certification?	No issues	Fully Compliant
Did the agency report binding encumbrances and payables in an accurate and timely manner, and submit the required certifications? Did the agency submit requests to reinstate lapsed appropriations in an accurate and timely manner, including proper justifications from the CFO or a higher official?	No issues	Fully Compliant
Did the agency maintain appropriate documentation for encumbrances, payables and reinstatement of lapsed balances?	No issues	Fully Compliant
Did the agency follow USAS and CAPPS requirements for recording encumbrance-related transactions?	No issues	Fully Compliant
Did the agency request multiple miscellaneous claim payments related to expired appropriations?	No issues	Fully Compliant

Key Recommendations

None.



Detailed Findings

Lapsed Appropriations Previously Encumbered

Auditors selected transactions associated with Appropriations 13060 and 13063 from the Commission's appropriation year 2016 for this audit. These appropriations were selected due to high "committed lapses," both in absolute amount and in percentage. The encumbrance balances on these appropriations under Fund 0001 (general revenue) as of Aug. 31, 2017, were \$312,556 and \$427,255, respectively. At the end of these appropriations' three-year life, the amount lapsed as of Aug. 31, 2018, the appropriation's expiration date, was \$313,754 and \$427,935, respectively. These lapses represented approximately 94% and 96% of the amount encumbered at the end of the second year of each appropriation's life.

A **committed lapse** is a lapse of appropriation for which the Legislature provided both spending authority and actual dollars. In contrast, for some appropriations, the Legislature provides only the spending authority and the agency is responsible for collecting the actual dollars. The lapsing of such an appropriation is a **collected lapse**.

Appropriations 13060 and 13063 were for vocational rehabilitation programs transferred from the Department of Assistive and Rehabilitative Services (DARS) to the Commission on Sept. 1, 2016, due to an act of the 84th Legislature. These encumbrances were established to pay outstanding invoices that transferred from DARS during the transition period. The vocational rehabilitation programs did not appear on the Commission's APS-018 report for fiscal 2016, as the Commission did not have these programs at the time. On expiration of the 2016 appropriations, the remaining balances were lapsed. Audit tests revealed no exceptions in the selected transactions.

Agencies should avoid over-encumbering an appropriation. Over-encumbering of funds could skew the data in the Biennial Revenue Estimate used by the Legislature to determine available resources and the amount deposited into the Economic Stabilization Fund. State agencies and institutions of higher education must accurately report all encumbrances. Amounts obligated for goods or services through contractual obligations should be encumbered according to Texas attorney general opinion numbers 0-2815 (1940), V-1139 (1950), WW-40 (1957) and WW-978 (1961). See [FPP A.019](#). Audit tests revealed no exceptions in the selected transactions, and the Aug. 31, 2017 encumbrance balances in appropriations 13060 and 13063 were not considered over-encumbering.



Reporting and Certification of Binding Encumbrances and Payables and Reinstatement of Lapsed Appropriations

State agencies and institutions of higher education must quarterly and annually record and certify binding encumbrances and payables for each current year's appropriations. The CFO or higher official for each agency must approve and submit all required certifications. See [FPP A.019](#). Audit tests revealed no exceptions in the selected transactions.

Documentation for Encumbrances and Payables

Encumbrances are commitments for goods made before the end of the reporting period for actual contracts awarded, not anticipated contracts or contracts under negotiation. Agencies must maintain supporting documentation for these legal obligations. Audit tests revealed no exceptions in the selected transactions.

Encumbrance Recording Requirements

An agency must use a specific transaction code to record the encumbrance amount quarterly if the agency does not record encumbrances in USAS when making obligations. See [FPP A.019](#). The Commission followed policy requirements for the T-codes used for encumbrance-related transactions. Audit tests revealed no exceptions in the transactions.

Miscellaneous Claims for Expired Appropriations

Valid claims not presented within the statutory time limit can be paid from funds appropriated to the Comptroller's office for miscellaneous claims. The Commission's miscellaneous claims from Aug. 31, 2018, when appropriation year 2016 appropriations expired, to present were all non-payroll related. No miscellaneous claims that were reviewed appeared to have been caused by over- or under-encumbering of funds. Audit tests revealed no exceptions in the selected transactions.



Appendices

Appendix 1 — Objectives, Scope, Methodology, Authority and Team

Audit Objectives

The objectives of this audit were to review agency compliance with [Encumbrance Report and Lapsing of Appropriations \(APS 018\) \(FPP A.019\)](#). The audit focus included:

- Did the agency over-encumber or allow large amounts of previously encumbered appropriated funds to lapse instead of expending them for the purposes outlined in the agency's Binding Encumbrances and Payables Certification?
- Did the agency accurately and timely report binding encumbrances and payables and submit the required certifications?
- Did the agency accurately and timely submit requests to reinstate lapsed appropriations, including proper justifications from the CFO or a higher official?
- Did the agency maintain appropriate documentation (including the ACO's approval) for encumbrances, payables, reinstating lapsed balances, etc.?
- Did the agency follow USAS and CAPPs requirements for recording encumbrance-related transactions?
- Did the agency request multiple miscellaneous claim payments related to expired appropriations?

Audit Scope

Auditors reviewed a sample of the Texas Workforce Commission's (Commission) encumbrance transactions that processed through USAS on Aug. 31, 2016, and Aug. 31, 2017, to determine compliance with FPP A.019.

The Commission received appendices with the full report and/or a management letter, including a list of the identified errors. Copies of the appendices may be requested through a [Public Information Act](#) inquiry.

Texas law requires the Texas Comptroller of Public Accounts (Comptroller's office) to audit claims submitted for payment through the Comptroller's office. All payment transactions are subject to audit regardless of amount or materiality.

Audit Methodology

The Expenditure Audit section uses limited sampling to conduct an encumbrance reporting audit, and relies on professional judgment to select areas the auditor considers high risk.



Fieldwork

Each auditor in the Expenditure Audit section approaches each audit with an appropriate level of professional skepticism based on the results of the initial planning procedures.

If an auditor suspects during an audit that fraud, defalcation or intentional misstatement of the facts has occurred, the auditor will meet with his or her supervisor, the Statewide Fiscal Oversight manager, or both, to decide what action or additional procedures would be appropriate.

Audit Authority

State law prohibits the Comptroller's office from paying a claim against a state agency unless the Comptroller's office audits the corresponding voucher.

- Texas Government Code, Sections 403.071(a), 403.078, 2103.004(a)(3).

State law allows the Comptroller's office to audit a payment voucher before or after the Comptroller's office makes a payment in response to that voucher.

- Texas Government Code, Section 403.071(g)-(h).

In addition, state law authorizes the Comptroller's office to conduct pre-payment or post-payment audits on a sample basis.

- Texas Government Code, Sections 403.011(a)(13), 403.079, 2155.324.

Audit Team

Shanda Hernandez, CTCD, Lead Auditor

Jack Lee, CPA



Appendix 2 — Definition of Ratings

Compliance Areas

Definition	Rating
Commission complied with applicable state requirements and no significant control issues existed.	Fully Compliant
Commission generally complied with applicable state requirements; however, control issues existed that impact the agency's compliance, or minor compliance issues existed.	Compliant, Findings Issued
Commission failed to comply with applicable state requirements.	Noncompliant
Restrictions on auditor's ability to obtain sufficient evidence to complete all aspects of the audit process. Causes of restriction include but are not limited to: <ul style="list-style-type: none">• Lack of appropriate and sufficient evidentiary matter.• Restrictions on information provided to auditor.• Destruction of records.	Scope Limitation

Internal Control Structure/Security Areas

Definition	Rating
Commission maintained effective controls over payments.	Fully Compliant
Commission generally maintained effective controls over payments; however, some controls were ineffective or not implemented. These issues are unlikely to interfere with preventing, detecting, or correcting errors or mitigating fraudulent transactions.	Control Weakness Issues Exist
Commission failed to effectively create or implement controls over payments.	Noncompliant

Repeat Finding Icon Definition



This issue was identified during the previous audit of the agency.